

# MAINE PUBLIC UTILITIES COMMISSION

## Year in Review

February 1, 1997

(Notice: The format and content of this "web" version of the Annual Report is different from the printed version available from the Commission)

### Contact Information:

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# State of Maine

## Public Utilities Commission

242 State St. - 18 State House Station - Augusta ME 04333

February 1997

### Commissioners

Heather F. Hunt  
Commissioner

William M. Nugent  
Commissioner

Thomas L. Welch  
Chairman

### Division Directors

James Buckley  
Legal

Dennis Keschl  
Technical Analysis

Wayne Olson  
Finance

Christopher Simpson  
Administration

Matt Thayer  
Consumer Assistance

1996 was an important year for the Maine Public Utilities Commission. At the request of the Legislature, we drafted a proposal to alter, in fundamental ways, how electricity is delivered in Maine and how providers of electricity should be regulated. In telecommunications, we saw the first major initiatives to opening local service markets under new federal law. We appear to be on the verge of a substantial expansion of gas service in Maine, with companies seeking authority to build the needed infrastructure. In all these areas, we continued to move from traditional regulatory approaches to systems where, whenever possible, market forces rather than government establish the prices and other terms for these essential services.

The historical level of regulation and government involvement is being challenged in virtually every aspect of the utility industry. There are clear indications that traditional ways of doing business may no longer serve the public interest. Commission policies have often reflected too much confidence in the predictive powers of regulators and too little confidence in market mechanisms. This is changing, not just in Maine but nationwide. Where once regulators assumed that government knew better than markets what to do, today regulators across the country -- and the U.S. Congress in passing sweeping telecommunications legislation -- are reversing the presumption. If you cannot show why regulation is necessary, stop regulating.

The Commission must find the best path from the traditional systems to market-based approaches. It becomes more important than ever to articulate clearly the purpose and likely consequence of any regulation and rule, and to ask in every case whether the rule advances the policy set by the Legislature and does it do so in a way that conflicts least with the operations of the market.

Consumer education will assume a much greater role than it has in the past. As free markets replace regulation, customers must become vigilant and informed. For that reason, the Commission has continued to expand its efforts to educate the public about utility issues and provide opportunities for public participation, rather than relying on traditional means of gathering information.

The transition from regulation to competition must be accomplished in a way that minimizes confusion and surprise, and does not unintentionally jeopardize the achievement of important state policies. We will do our best to continue to provide the Legislature and the public with timely, accurate and unbiased information about the proposed regulatory changes and the implications for all consumers -- residential, industrial, commercial -- of the policy choices being debated.

If past is prologue, 1997 will without a doubt be a time of creative challenge for staff and commissioners at the Maine Public Utilities Commission.

Thomas L. Welch  
Chairman

William M. Nugent  
Commissioner

Heather F. Hunt  
Commissioner

## Contact List

Abbott, Jean- Secretary.....	7-1364	Soldano, Rick - CAD Specialist.....	7-3831
Armstrong, Donna - Clerk Typist II.....	7-1352	Steneck, Joanne - Sr. Staff Attorney.....	7-1390
Ballou, Peter- Dep General Counsel.....	7-1388	Stratton, Mary - CAD Specialist.....	7-3831
Bergeron, Denis -Utility Tech Analyst II.....	7-1366	Sukaskas, Joe - Sr Tech Analyst.....	7-1375
Bero, Betty -Sr. CAD Specialist.....	7-1399	Sutton, Robert - Accountant II.....	7-1358
Brewer, Gilbert- Staff Attorney.....	7-1398	Tannenbaum, Mitch - Sr Staff Attorney.....	7-1391
Broad, Mary -Clerk of the PUC.....	7-1396	Thayer, Matt - CAD Director.....	7-1594
Buckley, James -General Counsel.....	7-1387	Thibodeau, Carmen -Hearings Reporter.....	7-6078
Campbell, Mary -Adm. Secretary.....	7-1360	Thornton, Sandra - CAD Specialist.....	7-3831
Carver, David - Utility Analyst.....	7-1380	Von Magnus, Eric - Utility Analyst I.....	7-1372
Cohen, Chuck -Staff Attorney.....	7-1394	Welch, Thomas -Chairman.....	7-3831
Cook, Ann -Computer System Mgr.....	7-8519		
Cowie, Doug- Utility Tech Analyst II.....	7-1369		
Cyr, Paula - Legal Secretary.....	7-6074		
Dunn, Steve -Complaint Supervisor.....	7-1592		
Fink, Lisa - Staff Attorney.....	7-1389		
French, Tammy - Legal Secretary.....	7-6075		
Friese, Diane-Librarian/Staff Development.....	7-1560		
Fullerton, Judy -Finance Secretary.....	7-1376		
Gibson, Bill -Utility Analyst.....	7-1374		
Hammond, Ray -Sr Technical Analyst.....	7-1368		
Hanson, Belinda - Technical Support.....	7-1356		
Hunt, Heather - Commissioner.....	7-3831		
Huntington, Faith - Deputy Director of TA.....	7-1373		
Kaler, Maralee - Hearings Reporter.....	7-1355		
Kania, Rich - Deputy Director of Finance.....	7-1379		
Keschl, Dennis - T. A. Director.....	7-1365		
Kivela, Richard - Utility Analyst.....	7-1562		
Leonard, Norman -Utility Tech Analyst.....	7-1371		
Lindley, Phil Public Information Contact.....	7-1598		
MacLennan, Carol - Staff Attorney.....	7-1393		
Monroe, Angela - Utility Tech Analyst.....	7-1397		
Nason, Sarah - Sr. Legal Secretary.....	7-1384		
Niles, Mary - CAD Specialist.....	7-1597		
Nugent, William -Commissioner.....	7-3831		
Olson, Wayne - Finance Director.....	7-1377		
Peaslee, Laurel - Legal Secretary.....	7-1386		
Poetzsch, Kathy - Word Processor.....	7-8328		
Poland, Naomi - Legal Secretary.....	7-1385		
Potter, Betty -Admin Secretary.....	7-1359		
Reishus, Sharon- Utility Analyst.....	7-1378		
Robichaud, Ray - Admin Assist.....	7-1357		
Rodrigue, Cheri - Clerk III.....	7-1566		
Shifman, Joel - Sr Utility Analyst.....	7-1381		
Simpson, Chris - Admin Director.....	7-1353		
Sipe, Donald - Staff Attorney.....	7-1392		
Siwinski, Grant - Sr Utility Analyst.....	7-1382		

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Website:

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# Maine Public Utilities Commissioners Biographies

Thomas L. Welch was appointed Chairman of the Maine Public Utilities Commission in May of 1993. Prior to joining the Commission, he was Chief Deputy Attorney General in the Pennsylvania Office of Attorney General, was a General Attorney for Bell Atlantic and Bell of Pennsylvania, and practiced law in San Francisco. He has also been Assistant Professor of Law at Villanova University School of Law and Adjunct Professor of Law at Dickinson School of Law. Chairman Welch graduated from Stanford University in 1972 and Harvard Law School in 1975.

Thomas L. Welch  
Chairman



William M. Nugent  
Commissioner



William M. Nugent was confirmed as a Commissioner in October 1991. Prior to coming to the Commission, Commissioner Nugent was (in reverse chronological order): President of the Greater Portland Chamber of Commerce, Chief Operating Officer of Envirologic Data, Inc., Commissioner of the Michigan Lottery, Michigan's Deputy Budget Director, an aide to the Governor of Michigan and the Mayor of Detroit, a staff member of a White House Council, a staff assistant in the Office of the Secretary of Defense, a newsman and editor. Commissioner Nugent graduated Phi Beta Kappa from Fordham University, attended the U.S. Military Academy at West Point, and studied as a Heinz Fellow at the University of Pittsburgh.

Heather F. Hunt, of Brunswick, Maine, was confirmed as a Commissioner of the Maine Public Utilities Commission in September of 1995. Prior to joining the Commission, Commissioner Hunt was Commissioner of the Connecticut Department of Public Utility Control. Earlier, she was Deputy Legal Counsel to former Connecticut Governor Lowell P. Weicker, Jr. (Ind.). Commissioner Hunt graduated from Fairfield University, Fairfield, Connecticut in 1988 and Western New England College School of Law, Springfield, Massachusetts in 1992.

Heather F. Hunt  
Commissioner



# State of Maine Public Utilities Commissioners 1915 - 1997

*	Benjamin F. Cleaves	1915-1919	*	Thomas E. Delahanty	1956-1957
	William B. Skelton	1915-1919		David K. Marshall	1958-1969
	Charles W. Mullen	1915-1916		Earle M. Hillman	1962-1968
	John E. Bunker	1917-1917	*	John G. Feehan	1968-1974
	Herbert W. Trafton	1918-1936		Leslie H. Stanley	1970-1976
*	Charles E. Gurney	1921-1927	*	Peter A. Bradford	1971-1976
	Albert Greenlaw	1924-1933			1982-1987
*	Albert J. Stearns	1928-1934		Lincoln Smith	1975-1981
	Edward Chase	1934-1940	*	Ralph H. Gelder	1977-1983
*	Frank E. Southard	1935-1953		Diantha A. Carrigan	1977-1981
	C. Carroll Blaisdell	1937-1941		Cheryl Harrington	1982-1991
	James L. Boyle	1941-1947		David Moskovitz	1984-1989
	George E. Hill	1942-1953	*	Kenneth Gordon	1988-1993
	Edgar F. Corliss	1948-1954		Elizabeth Paine	1989-1995
*	Sumner T. Pike	1954-1955	*	Thomas L. Welch	1993-Present
	Frederick N. Allen	1954-1967		William M. Nugent	1991-Present
	Richard J. McMahon	1955-1961		Heather F. Hunt	1995-Present

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# Words of Wisdom From The Past

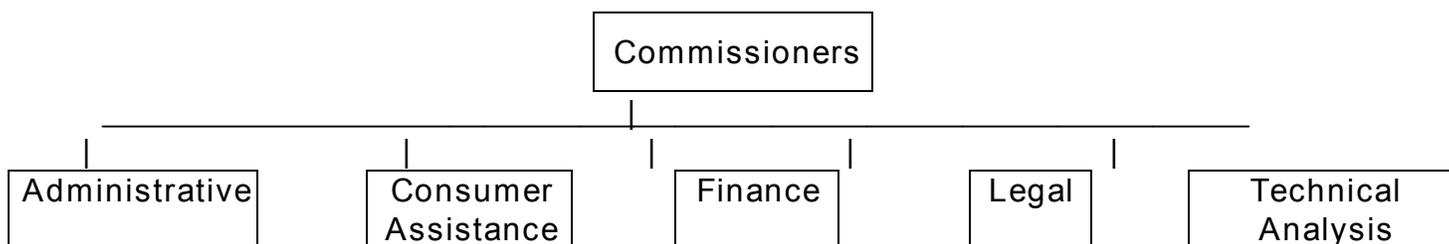
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An excerpt from the first annual report printed November 1, 1915 and delivered to Governor Oakley C. Curtis by PUC Chairman Benjamin F. Cleaves states:

...We desire our annual report, in its entirety, to be a document which will be of interest to all our people. To be such it ought not to contain a needless number of complicated tables and technical statistics, in the compilation and printing of which much money is expended. Whether a sufficient number of people are interested in such matters to warrant placing in future reports this tabulated and statistical information is a matter for future consideration... Our relationship with you and your council, with the public at large and with the various utilities have been such as to give new strength to our initial hope that, given time, opportunity and reasonable support, the Utilities Law and this Commission working within the same could be of great benefit to the State and its people.

First Case filed: W. BELASCO ET AL VS. ROCKLAND, THOMASTON & CAMDEN STREET RAILWAY, F.C. No. 1. Complaint filed with the Railroad Commissioners August 8, 1914, alleging unreasonable passenger rates between Warren and Thomaston.

# ORGANIZATIONAL CHART



## Commissioners

The Commission consists of three full-time members nominated by the Governor, reviewed by the Utilities and Energy Committee of the Maine Legislature and confirmed by the full Senate, for staggered terms of six years. One Commissioner is designated as Chairperson by the Governor. The Commissioners make all final PUC decisions. The Commission's staff includes accountants, engineers, lawyers, financial analysts, and administrative and support staff.

The Commission is divided into five operating divisions:

The Administrative Division is responsible for fiscal, personnel, contract and docket management, physical plant, computer operations and the Information Resource Center. This division provides support services to the other divisions and assists the Commission in coordinating its activities.

The Consumer Assistance Division (CAD) is responsible for providing information to business and utility customers to help them resolve their disputes with utilities. The CAD also processes complaints and in response to those complaints determines what utility practices, if any, should be corrected.

The Finance Division is responsible for conducting financial investigations and analyses of telephone, electric, gas and water utilities operations. This division analyzes all applications by utilities to issue securities. Finance staff prepare testimony and other economic analysis concerning rate base, revenues, expenses, depreciation and cost-of-capital issues. Staff are assigned as advisors and advocates on cases before the Commission.

The Legal Division is responsible for providing hearing officers, advisors and advocates in cases before the Commission and assists in preparing and presenting Commission views on Legislative proposals. Legal staff are also assigned as advisors and advocates on cases before the Commission. This division also represents the Commission before federal and state appellate and trial courts.

The Technical Analysis Division (TAD) is responsible for advising the Commission on questions of engineering, rate design, energy science, statistics and other technical elements of policy analysis for all utility areas. TAD staff are assigned to teams in litigated cases as advocates and assigned as advisors to the Commission in other cases. As advocates they may act as expert witnesses and as advisors they help analyze the technical aspects of the evidence presented to the Commission.

## REGULATORY PROCESS

The Maine Public Utilities Commission (PUC or Commission) was created in 1913 by an Act of the Maine Legislature and organized into existence on Dec. 1, 1914. The Commission has broad powers to regulate more than \$1.6 billion a year in electric, telephone, water and gas utility revenues. These utilities are a critical component of the state's economy and employ more than 10,000 Maine people.<sup>1</sup> The PUC also responds to customer questions and complaints, grants utility operating authority, regulates utility service standards and monitors utility operations for safety and reliability.

A quasi-judicial authority, the Commission establishes and enforces administrative regulations. Like a court, the PUC may take testimony, subpoena witnesses and records, issue decisions or orders, hold public and evidentiary hearings and encourage participation of all affected parties, including utility customers. The PUC also initiates investigations and rulemakings, resolves procedural matters, investigates allegations of illegal utility activity and responds to legislative requirements.

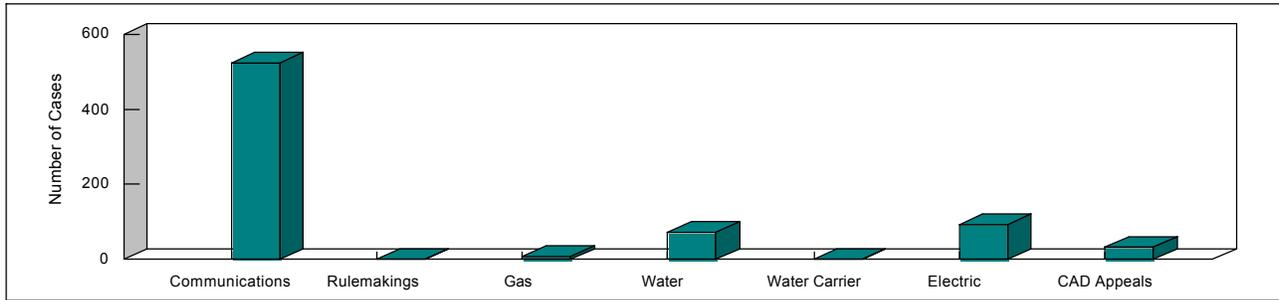
This is a time of transition for all parties -- the utilities, the PUC and utility customers. As directed by the Maine Legislature and the U.S. Congress, the Commission is changing how it regulates utilities. Complex, lengthy and costly rate cases are being replaced with more streamlined proceedings using more negotiated and mediated settlements and other, less formal processes. In addition, the PUC will adopt new rules to address the changes in the utility industry. During this time of transition, it is important for the Commission to keep firmly grounded in the authority granted by the Legislature while developing new approaches to regulation. This is an important challenge to the PUC for its decisions affect every Maine citizen and the collective economy of the State.

The PUC has jurisdiction over 412 utilities (see chart on next page).

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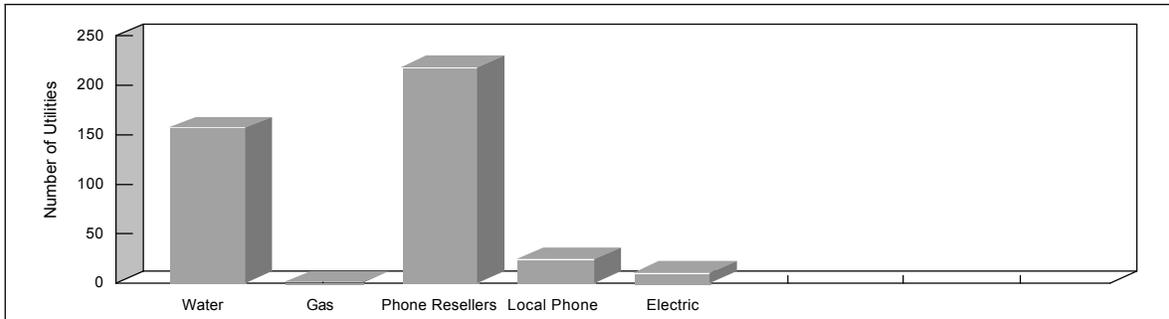
<sup>1</sup> 1995 figure from Maine Department of Labor.

## 734 CASES DECIDED IN 1996



Communications 522  
 Rulemakings 2  
 Gas 10  
 Water 72  
 Water Carrier 1  
 Electric 93  
 CAD Appeals 34

## UTILITIES SUBJECT TO COMMISSION JURISDICTION



Water 157  
 Gas 1  
 Phone Resellers 137  
 Local Phone 24  
 Electric, including co-ops &  
 municipals 11

## PUBLIC OUTREACH INITIATIVES

- \* MPUC World Wide WebHomepage (<http://www.state.me.us/mpuc/>)
- \* Consumer Information Bulletins
  - \* News Releases
  - \* Television

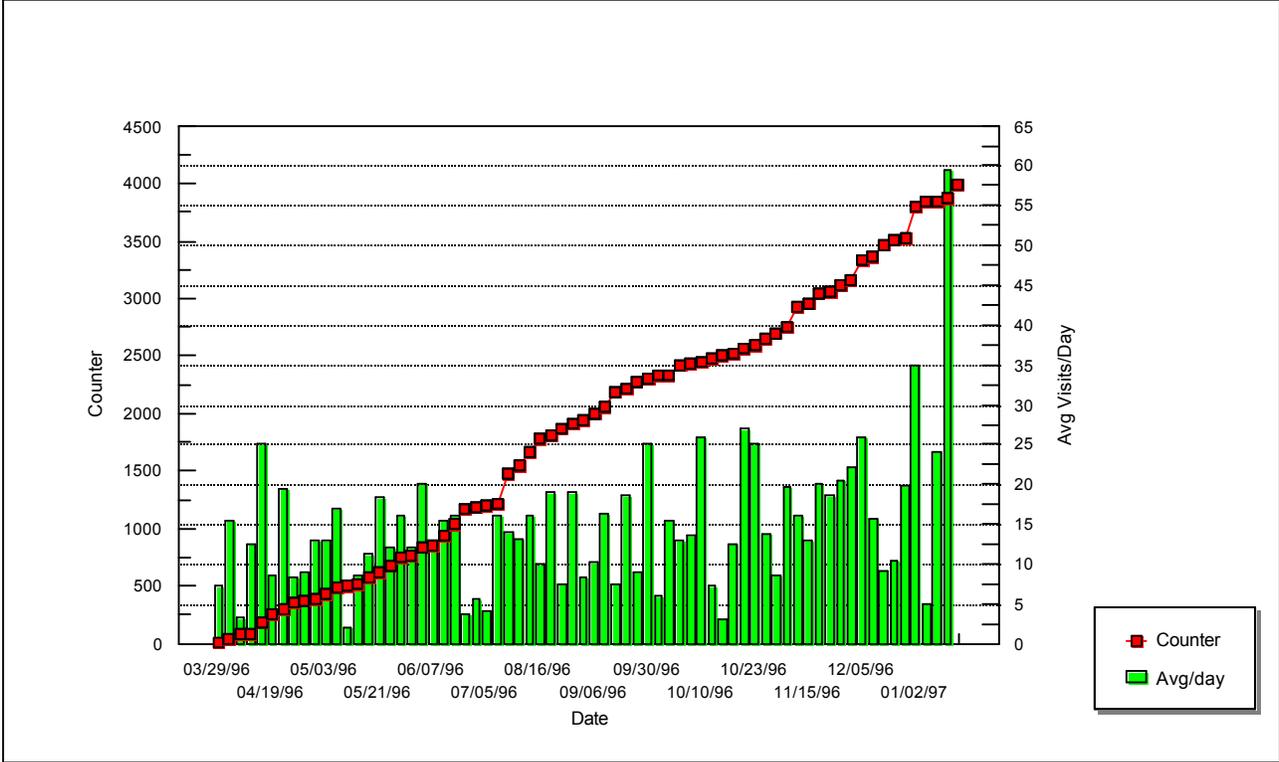
On March 25, 1996, the Commission began traveling the information superhighway with a homepage on the World Wide Web. The homepage allows the PUC to provide information about Commission activities -- often on the same day they occur -- to more than 25 million users of the Internet worldwide and, more importantly, to the growing thousands of Maine Internet users. The Commission's homepage contains current deliberative meeting agendas, lists of new cases filed, recent important decisions and orders, rules of operation, press releases, lists of regulated utility companies, names and direct phone numbers of Commission staff and much more. The homepage saves time and money both for the Commission and our customers; we expect mailing and copying costs will fall at the same time the number of people with access to information will increase. The Commission's homepage is continually revised and updated.

The Commission also prepares topic-specific bulletins or newsletters when there is a need for detailed information on important issues. We published two issues of the Maine S&L Net News (regarding the Maine School and Library Network which will connect all schools and libraries in Maine to the Internet) and five volumes of Bulletin: Electric Utility Industry Restructuring. These publications are distributed to people who either expressed or might have an interest in the information.

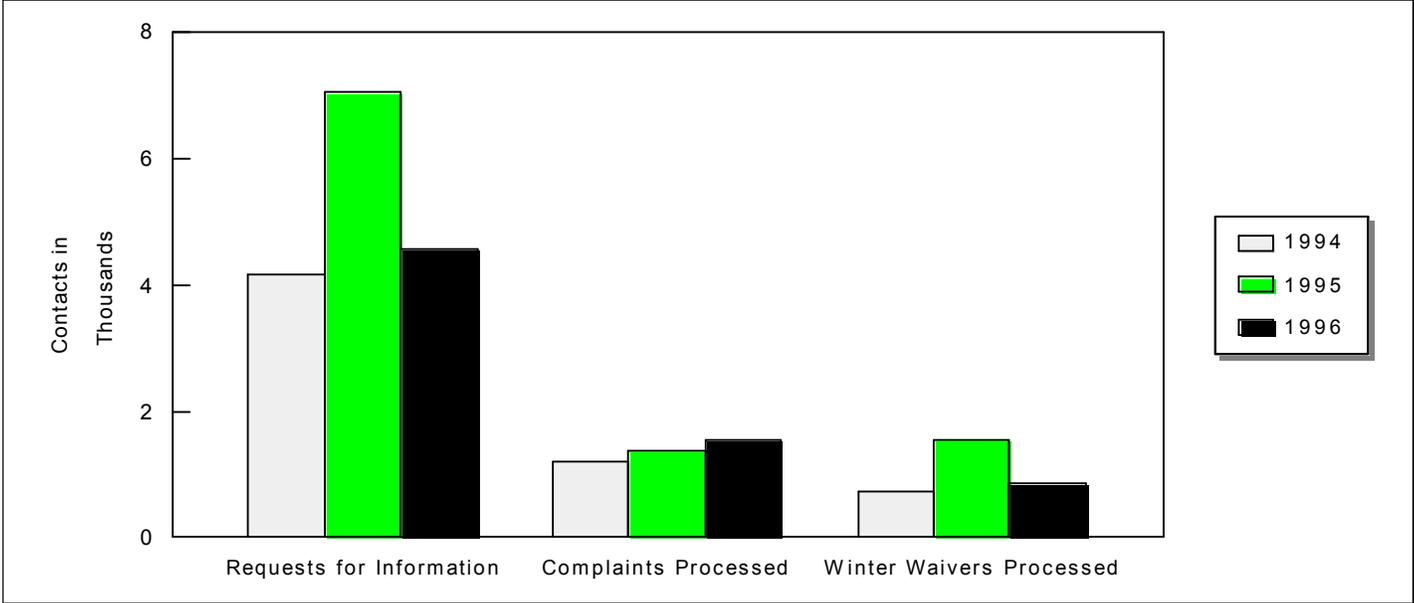
The Commission prepares regular news releases on a variety of issues, including recent decisions and orders, notice of public witness hearings, and consumer information areas. The releases are faxed to all news organizations in Maine, as well as to many organizations and individuals who have expressed interest in Commission activities. The releases are also posted on the Commission homepage.

With the cooperation of Time-Warner Cable (which provided production facilities) and cable TV stations throughout Maine, the Commission produced and broadcast a 30-minute video on electric industry restructuring. The Commission will continue to try to find creative and effective ways to inform the public of the issues before us.

MPUC WEBSITE: NUMBER OF VISITORS



# CAD CUSTOMER CONTACTS 1994 - 1996



**Total Customer Contacts:**

1994 - 6,079  
 1995 - 9,981  
 1996 - 6,970

The significant decrease in the number of customer winter waivers processed by CAD in 1996 was due to an alternative program developed at CMP. This program allowed CMP to cycle customers, who were unable to be contacted, without authorization from CAD.

## ELECTRIC

- \* Commission recommends plan to Legislature on how to achieve retail competition by the year 2000
- \* Central Maine Power's(CMP) annual price increase under price-cap regulation limited to 1.26%
- \* Commission accepts Bangor Hydro Electric's (BHE) commitment to freeze rates through 1999
- \* Maine Public Service(MPS) increases rates 4.4%; Commission approves rate design changes

### RESTRUCTURING REPORT TO LEGISLATURE

This year the Commission constructed a plan for the Legislature's consideration to achieve retail market competition by the year 2000 for the purchase and sale of electric energy in Maine. After issuing a Notice of Inquiry on the restructuring issues on December 12, 1995, the Commission received 22 initial comments and 11 responsive comments from various stakeholders. Thirty-five parties responded to the Commission's Draft Plan, issued July 19, 1996. The Commission also gathered public opinion about the issues during the year, using a variety of means, including roundtable discussions, surveys of residential and commercial customers, a World Wide Web page, and nine public hearings held around the state.

The Commission's Report and Recommended Plan to the Legislature, dated December 31, 1996, fundamentally challenges the historical method of delivering, purchasing and regulating the provision of electric services. Eight principles guided the recommendation:

1. Market mechanisms should be preferred over regulation and the risk of business decisions should fall on investors rather than consumers.
2. Consumers' needs and preferences should be met with the lowest costs.
3. All consumers should have a reasonable opportunity to benefit from a restructured electric industry.
4. Electric industry restructuring should not diminish environmental quality, compromise energy efficiency, or jeopardize energy security.
5. All consumers should have access to reliable, safe and reasonably priced electric service.
6. Electric industry restructuring should not diminish low income assistance or other consumer protections.
7. The electric industry structure should be lawful, understandable to the public, and perceived to be fair.
8. Electric restructuring should improve Maine's business climate.

If adopted, the plan would give all Maine electricity customers the option to choose their power supplier on January 1, 2000. After retail competition begins, the PUC would no longer regulate, as public utilities, companies that generate or sell electric power. Regulated public utilities would provide electric transmission and distribution (T&D). By the start of retail competition, CMP, BHE, and MPS would be required to transfer all generation-related assets and activities to corporations distinct from their T&D businesses. Consumer-owned utilities would not be required to divest, or structurally separate.

The plan also recommends that standard offer service be available to all customers who do not choose a competitive power provider or who cannot obtain power in the market at reasonable terms. The Commission would cap the standard offer rate so the cost of power and T&D together does not exceed the price of electricity before retail competition. The Commission would adopt standards to govern the relationship between customers and power suppliers and would have jurisdiction to resolve some types of disputes between customers and power providers.

The Commission recommends that all companies selling electric power to retail customers in Maine should include a specified minimum amount of renewable energy in their portfolio, and report the mix of fuels used to generate electricity. Ratepayers would continue to fund cost effective energy efficiency programs through revenue collected through the rates of T&D utilities.

Electric utilities would be given a reasonable opportunity to recover legitimate, verifiable, and unmitigatable costs stranded as a result of retail competition. The Commission would periodically examine stranded costs, and authorize collection of those costs from customers through the regulated rates of the transmission and distribution utilities.

The principal long-term benefit of the PUC recommendation is to shift the risk of business decisions about investment in generation away from ratepayers and onto shareholders. Another benefit is to bring competitive pressure to rates, which should move Maine's electric prices closer to the national average.

#### CENTRAL MAINE POWER COMPANY

The Commission approved the second annual price change under CMP's Alternative Rate Plan (ARP), authorizing a 1.26% increase in the rate caps in July for all customer classes. CMP is also required to reduce the balance of its regulatory asset account by \$1.01 million, representing a flow back to ratepayers from certain qualifying facilities (QF) contract restructurings. Several issues raised during the 1996 annual review, in Docket 96-599, will be explored further in the mid-period ARP review in 1997, including possible changes to the demand-side management (DSM) target-setting mechanism. In the 1996 DSM performance target proceeding, Docket No. 96-598, the Commission adopted a DSM target of 34 million kWh for 1997.

During 1996, CMP filed and the Commission approved more than 30 special contracts or rates under the ARP's pricing flexibility guidelines. These arrangements are intended to retain existing electric load or induce incremental growth in electric sales, improve customer satisfaction, or facilitate economic development and competition.

#### BANGORHYDRO-ELECTRICCOMPANY

In the first half of the year, parties presented and litigated various rate plans in a Phase II proceeding of the Company's Alternative Marketing Plan (AMP), Docket No. 94-125. On July 10, 1996, the Commission issued its Order in Phase II, concluding that no price cap plan for BHE be adopted at that time. The Commission's conclusion was based largely on BHE's public commitment to its customers that it will not seek rate increases, and on the Commission's assessment that the Company would be unlikely to seek a general rate hike through 1999, given BHE's financial condition.

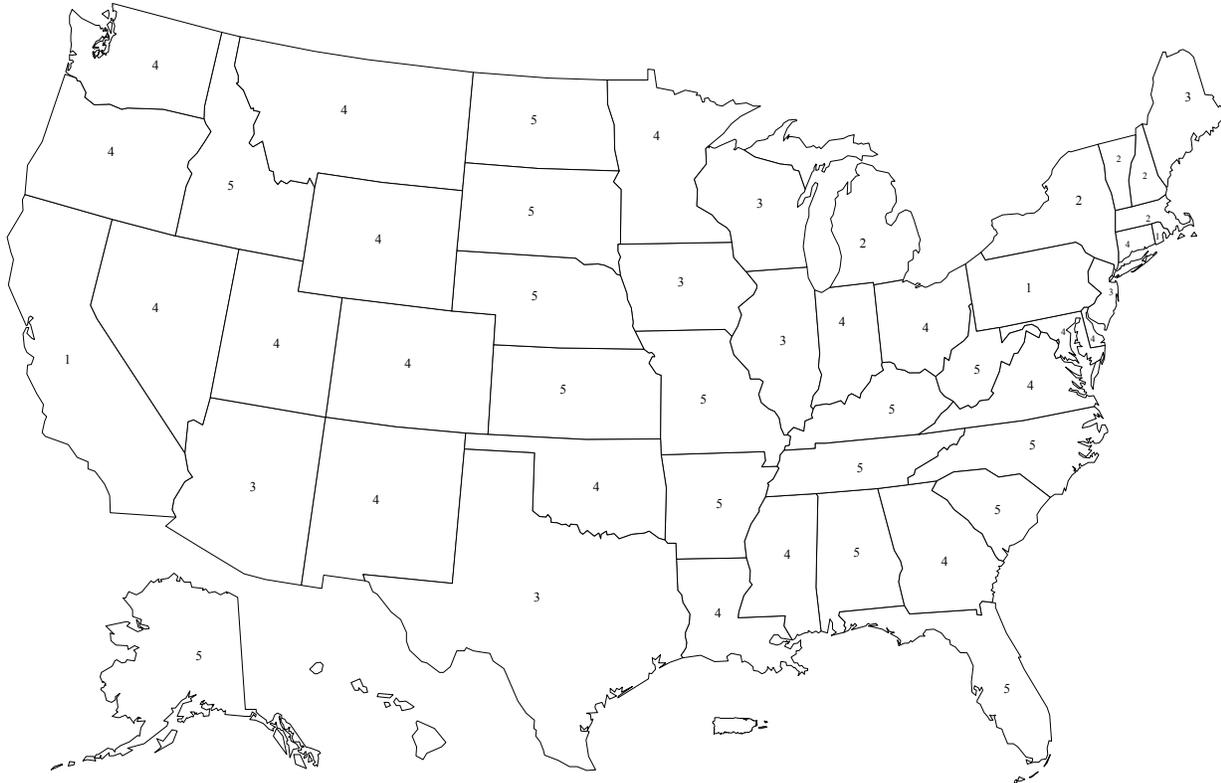
The AMP allows BHE considerable flexibility in the way it prices electric service. In 1996, BHE filed seven special contracts for review, and each was determined to conform to the AMP criteria. Six contracts were for special rate contracts that retained existing electric load or induced incremental growth in electric sales. Separately, the Company and its large industrial customer HotraChem Manufacturing, resolved a prolonged dispute with the assistance of a Commission facilitator, and executed a new rate agreement establishing a special rate contract through the end of 1999. The Commission approved the resolution and contract on December 23, 1996, in Docket No's 96-117 & 96-126.

#### MAINE PUBLIC SERVICE COMPANY

The Company's Rate Stability Plan (RSP), approved on November 30, 1995, set forth a rate increase of 4.4% on January 1, 1996. The approval of the RSP did not resolve certain rate design issues, and thus parties presented and litigated their positions during the first half of 1996. The Commission issued its Order on June 27, 1996, in Docket 95-052 approving rate design changes that were based in part upon marginal cost results. The rate design changes resulted in slightly higher rates for the Company's residential and commercial customers and slightly lower rates for certain large industrial customers.

The RSP Order allows MPS to request raising its rates to customers once each year. On November 14, 1996, in Docket 96-719, the Company requested its second annual rate increase of 2.9% effective in 1997, pending Commission approval. The RSP also set forth flexible pricing criteria and during 1996, MPS filed two contracts for review, requesting approval of a special rate contract with an industrial customer which is in the business of food processing. Both were determined to meet the criteria and were approved by Commission Order.

## STATE RESTRUCTURING ACTIVITIES



- Tier 1: A statewide restructuring plan has been adopted.
- Tier 2: Companies have been ordered to file restructuring plans or general restructuring legislation has been enacted.
- Tier 3: A Commission or legislative investigation is underway that appears likely to lead to the adoption of a planned restructuring.
- Tier 4: Informational or fact-finding activities are underway.
- Tier 5: No substantive activity is underway or a decision had been made that no action is necessary

- \* Consumers Maine Water Company,
  - Proposed Affiliated Service Contract, Docket No. 9676
  - Application for Approval of Transfer of Hartland Water Company, Docket No. 9681
  - Application for Acquisition and Merger of Bucksport Water Company, Docket No. 9612
  - Application for Authority to Sell and Approval of Purchase and Sale Agreement, Docket No. 96772
- \* Farmington Falls Water Proposed Increase in Rates, Docket No. 9688

During 1996, Consumers Maine Water Company (Consumers) purchased two water utilities and was appointed as receiver to manage another water utility. The purchase of the two companies and the operation of a third company under receivership benefit the ratepayers of the three systems and Consumers.

Consumers purchased the Hartland Water Company in September. Hartland was having problems complying with the requirements of the Safe Drinking Water Act (SDWA) due to its small size and the apparent lack of available financing. The purchase by Consumers will make financing available to Hartland and enable it to comply quickly with the SDWA. Consumers will benefit by more fully using its management expertise in the operation of its seventh independent Maine water division.

In December, Consumers purchased another investor-owned water system, the Bucksport Water Company. Again Consumers will benefit by more fully using its management expertise in the operation of its eighth independent Maine water division. With the addition of this new system, Consumers is serving almost 16,000 customers in Maine. Bucksport's rates will likely double as a result of meeting the requirements of the SDWA (a filtration plant must be built and on-line by the spring of 1997). However, Consumers has been working to constrain costs by getting tax exempt financing (at approximately 6 1/2%), by redesigning the filtration plant at a subsequent \$1 million savings, by working with the Town of Bucksport to reduce property taxes, and to arrange a build/lease back agreement for a new standpipe at reduced financing costs.

In September, the Waldoboro Water Company was placed in receivership under Consumers. The problems encountered by Waldoboro, especially compliance with the SDWA, are caused largely by the difficult small, independently-owned water companies have in obtaining adequate low cost financing. This financing is not available to many small companies that need to add new plant that in many cases is five times as large as its current plant. Under receivership, the ratepayers will benefit through the efficient operation of their system until it can be sold.

Also in 1996, the PUC initiated Commission staff-assisted rate cases on a limited basis to small water systems. The first utility to apply for assistance was Farmington Falls Water Company. The Company received a 62.3% increase over 1995 revenues. Commission staff was able to assist this small company (total annual revenue of \$13,143) in developing and submitting a proper rate filing that the Commission subsequently approved. The process saved resources for both the Commission and the utility. The following charts reflect 1996 water utility filings to increase rates.

MUNICIPAL & QUASI-MUNICIPAL WATER UTILITIES  
 RATE CASES FILED PURSUANT TO 6104 THAT WERE SUSPENDED AS A RESULT OF  
 CUSTOMER PETITIONS OR PROCEDURAL ERRORS FILED OR COMPLETED IN 1996

Docket No.	Utility Name	Date Filed	Utility Proposed Revenue	Commission Allowed Revenue	Allowed Increase	% Increase Allowed	Effective Date
96-013	PORT CLYDE WATER DIST***	2/23/96	\$31,285	\$31,285	\$7,085	29.28%	4/1/96
96-322	HAMPDEN WATER DIST*	6/14/96	PENDING				

\*\*\*Suspended due to procedural errors by District

\* Suspended due to customer petition

MUNICIPAL & QUASI-MUNICIPAL WATER UTILITIES RATE CASES PURSUANT TO SECTION 6104 COMPLETED IN 1996					
Docket No.	Utility Name	Utility Proposed Revenue	Increase Over Prior Year	% Increase Over Prior Year	Effective
95-418	BAILEYVILLE UTILITIES DIST	\$283,465	\$129,921	84.61%	4/1/96
96-014	LONG POND WATER DIST	\$86,850	\$58,885	210.57%	4/1/96
96-056	BANGOR WATER DIST	\$3,815,920	\$749,218	24.43%	4/24/96
96-077	GARDINER WATER DIST	\$973,871	\$120,986	14.19%	7/1/96
96-189	RICHMOND UTILITIES DIST	\$165,237	\$40,142	32.09%	7/1/96 2/28/97
96-269	ADDISON POINT WATER DIST	\$13,860	\$6,300	83.33%	8/1/96
96-389	NEW PORTLAND WATER DIST	\$18,140	\$5,435	42.78%	10/1/96
96-418	ELLSWORTH WATER DEPT	\$837,000	\$85,714	11.41%	10/1/96 1/1/97
96-464	ASHLAND WATER DIST	\$163,500	\$32,875	25.17%	1/10/97
96-508	OXFORD WATER DIST	\$210,256	\$53,407	34.05%	1/1/97
96-536	BREWER WATER DIST	\$1,694,275	\$626,651	58.70%	12/1/96

Investor Owned Water Utilities and Water District Rate Cases Pursuant to Section 307 Completed in 1996										
Docket No.	Utility Name	Date Filed	Utility Proposed Revenue	Commission Allowed Revenue	Allowed Increase	% Increase Allowed	Effective Date	Test Year Run	Utility Requested Return	Commission Allowed Return
95-315	WINTER HARBOR WATER CO	9/1/95	\$129,477	\$107,343	\$3,415	3.29%	6/4/96	8.17%	11.07%	10.850%
95-329	SOUTHPORT WATER CO	9/15/95	\$208,224	\$100,382	\$0	.00%	N/A	N/A	N/A	N/A
95-391	BAR HARBOR WATER CO	10/27/95	\$704,107	\$683,523	\$83,004	13.80%	7/2/96	6.95%	10.31%	10.030%
96-688	FARMINGTON FALLS WATER CO	11/6/96	\$13,143	\$13,143	\$5,043	62.30%	1/10/97	0.00%	10.20%	10.200%

- \* Northern Utilities, Inc.
  - Proposed Precedent Agreement with Granite State Gas Transmission, Inc., for Liquid Natural Gas Storage Service Docket No. 95-480
  - Proposed Precedent Agreement with Portland Natural Gas Transmission System for Transportation Service Docket No. 95-481
  - Summary Investigation Into Northern Utilities, Inc., Cost of Service and Other Acts, Docket No. 96-747
  - Proposed Environmental Response Cost Recovery, Docket No. 96-678
  - Summer and Winter Cost of Gas Adjustments, Docket No. 96-079
  - Midcourse Cost of Gas Adjustment, Docket No. 96-752
- \* Mid Maine Gas Utilities, Inc., Request for Approval to Furnish Gas Service, Docket No. 96-465
- \* Central Maine Power Company, Request to Furnish Gas Service, Docket No. 96-786

The most publicized gas industry proceedings at the Maine Public Utilities Commission in 1996 were the two precedent agreements filed by Northern Utilities Inc. In Docket No. 95-480, Northern Utilities sought approval to commit to a 20-year contract for Liquid Natural Gas (LNG) storage services from a proposed LNG facility in Wells, Maine. In Docket No. 95-481, the Company requested approval for a 20-year gas transportation contract with Portland Natural Gas Transmission Systems (PNGTS). Because both filings involved significant and related gas supply issues and long-term commitments by Northern Utilities to purchase services from affiliated companies, they were processed simultaneously. Northern Utilities was required to demonstrate that each of the agreements was consistent with, and complimentary to, a gas supply plan that would allow for the provision of safe and reliable gas service at the lowest practicable cost to customers. The Commission approved the initial LNG Storage Service Agreement with Granite State in August, but did not approve the Transportation Service Agreement until December, after the filing of a revised precedent agreement in which the amount of transportation service being requested was reduced (Docket No. 96-558).

The issue of gas industry “unbundling” arose during the course of the precedent agreement hearings. Unbundling means separating services, such as transportation, generation and distribution, which are currently provided as a single service and price. The unbundling of services in other regulated industries is occurring rapidly, and the Commission expects that some of the services currently offered in a “bundled” manner by local gas distribution utilities may, in the future, be provided as separate unbundled services. Such a transformation would require substantial regulatory review. One element of this review would be an investigation of the utility’s cost of service and revenue requirements. As preparation for eventual unbundling proceedings, the Commission required Northern Utilities to provide the information required by Commission Rule Chapter 120, which governs rate filings. This information was filed on December 6, 1996, and will be reviewed in Docket No. 96-747. The Commission also ordered the utility to file a proposal to unbundle its services, including transportation, load balancing, and third party merchant services by December 31, 1997.

The proposed development of two additional interstate pipeline facilities that would pass through the State of Maine has resulted in increased interest to provide gas service to Maine residents. The Portland Natural Gas Transmission System would transport gas from Canada, through western and southern Maine to New Hampshire and Massachusetts beginning in 1998. The Maritimes and Northeastern pipeline would transport gas from offshore Nova Scotia through eastern Maine to New Hampshire and Massachusetts beginning in 1999. Each facility would open new markets by introducing natural gas to unserved areas in Maine. Mid-Maine Gas Utilities, Inc., and Central Maine Power Company have each filed separate requests to furnish gas service to Maine residents in parts of the State which do not currently have access to gas distribution facilities; both filings are currently under review by the Commission.

More than one half of the cost of a typical gas bill comprises gas commodity costs. The gas utility is not allowed to profit from these costs; it merely passes them on from the producer to the consumer in Cost of Gas Adjustment (CGA) Proceedings. A large difference between winter and summer gas costs exists, so two (CGA) proceedings are held each year to keep rates in line with costs. In addition, when gas prices become very volatile, mid-period adjustments are also sometimes made to prevent the buildup of either large credit or debit balances.

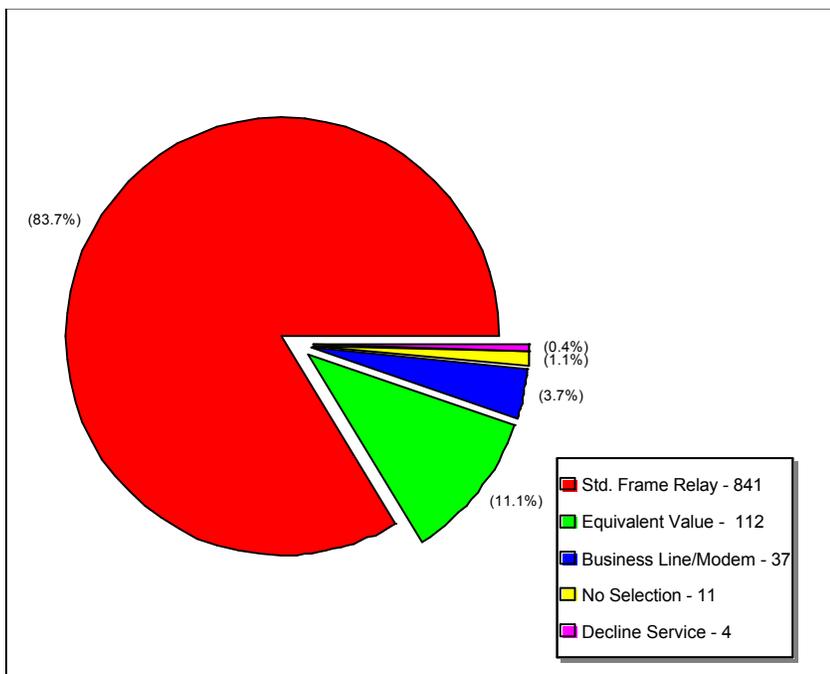
# TELECOMMUNICATIONS

- \* Maine School and Library Connection to the Internet
- \* Alternative Form of Regulation (AFOR)
- \* NYNEX - Bell Atlantic Merger
- \* AT&T - NYNEX Arbitration: Telecommunications Act of 1996
- \* Chapter 280 - Rulemaking: Interexchange Access Charges

## Maine School and Library Network

Pursuant to Commission Order 94-123, a NYNEX rate case, Maine schools and libraries are being connected to information networks and services. Under the Order, all Maine public and state-certified private schools, and all Maine libraries that provide free access to the public, have the opportunity to secure free high-speed connection to the Internet and other information services. The program is funded by NYNEX ratepayers up to \$4 million per year through 1999. The School and Library Network Advisory Board oversees the implementation of the project.

As of November 30, 1996, of the 1,138 eligible schools and libraries, 1,005 have applied to participate in the School and Library Network. NYNEX has connected almost 500 schools and libraries to the Network and many more are scheduled for connection. One hundred and twelve schools and libraries have chosen a different provider, most often a cable company. Two hundred sixty-seven schools and libraries without adequate computers have received grants to upgrade or buy new computers. The project is also providing basic user and technical training. The University of Southern Maine, Northern Maine Technical College and UMO provide training under the auspices of the Maine Science and Technology Foundation. By June 1997 the Commission expects all applicants to be connected to the Network.



MAINE SCHOOL & LIBRARY NETWORK  
Type of Network Connections

## Alternative Form of Regulation

In May 1995, the PUC adopted an Alternative Form of Regulation for NYNEX effective for at least five years. Under the AFOR, NYNEX's rates for core services are indexed to the rate of inflation minus a productivity offset of 4.5%. Core services include non-discretionary services (primarily basic exchange and toll services) and discretionary services (such as existing Custom Calling and Phonesmart services, and special contracts with customers who have competitive alternatives). Under the first annual AFOR filing, effective on December 1, 1996, rates for NYNEX's core services decreased by \$6,957,000. (2.1% of NYNEX's core service revenues). The AFOR is intended to create stronger incentives for efficiency than are available under cost-of-service regulation, while keeping price increases well below the inflation rate.

## NYNEX/Bell Atlantic Merger

On December 30, 1996, the Commission conditionally approved a merger between NYNEX and Bell Atlantic Corporation. First, NYNEX must comply with the 14-point "competitive checklist" in section 271 of the federal Telecommunications Act of 1996, by September 30, 1997. Meeting the checklist should create the conditions needed in Maine for competition in local telephone markets. Second, NYNEX must maintain, for at least four years, levels of capital spending in Maine comparable to the levels spent over the past four years, and must meet service benchmarks, to be determined early in 1997, to ensure that Maine remains competitive in its telecommunications offerings. The merger is still waiting approval from other state and federal agencies.

## AT&T - NYNEX Arbitration: Telecommunications Act of 1996

The Telecommunications Act of 1996 (TelAct96), requires that local telephone service be opened to competition. To date, 22 providers have taken the first step toward competing in Maine's local telephone market by requesting NYNEX to negotiate interconnection or resale agreements. Issues not successfully negotiated by the parties have been or will be arbitrated by the Commission. The Commission arbitrated nine issues between AT&T and NYNEX, and approved a negotiated agreement between Freedom Ring (a partnership of two independent telephone companies) and NYNEX.

Customers in Maine will begin to see competitive alternatives to NYNEX for local service, as AT&T, Freedom Ring, and other entrants begin to offer and market their services.

## Chapter 280- Interexchange Access Charges

The Commission issued a Notice of Rulemaking to revise Chapter 280 that affects charges paid by competitive toll providers to local telephone companies for the carriage of in-state telephone calls. The rulemaking contains two proposals. The first proposal would revise the structure of Maine's intrastate access charges. In light of the December, 1996 proposal by the FCC to overhaul access charges for interstate services, the Commission has deferred further consideration of the first proposal until the federal issues are resolved. The second proposal would reduce existing access charges paid by the competitive toll providers, pending federal changes, but would retain the present access charge structure. Reductions in access charges will lead to lower in-state toll calling for customers.

1996 LEGISLATIVE SUMMARY  
SECOND REGULAR SESSION OF THE 17th MAINE LEGISLATURE

The following is a brief summary of nine bills signed into law in 1996 that have affected PUC operation or regulation:

LD 828 An Act to Provide Affordable Access to Information Services in All Communities of the State through Enhanced Library and School Telecommunications establishes as a state policy that access to advanced information services be made available to all communities regardless of geographic location. It specifically provides that the Commission may require telecommunication carriers to offer services to libraries and schools at no or reduced cost; provide funds for qualified schools and libraries to obtain telecommunication services from other vendors, and pay into a telecommunications access fund. It also requires the Commission to report annually, beginning Feb. 1, 1997 to the Utilities and Energy Committee on the progress in providing affordable access, use of funds and impacts of the Telecommunications Act of 1996.

LD 1768 An Act to Standardize the Creation of Water Districts is designed to promote consistency among the powers and authorities of water districts in this State by centralizing all water charter provisions.

LD 1783 An Act to Repeal the Sunset and Reporting Requirements Regarding Transportation of Unscheduled Freight in Casco Bay

LD 1793 An Act to Extend the Electric Rate Stabilization Project extended the deadline for issuing a certificate for any Electric Rate Stabilization Project and requires the PUC to report to the Utilities Committee by May 1, 1997 on all rate stabilization agreements.

LD 1443 An Act to Identify Federal Mandates requires every state agency and department to submit a listing of laws or regulations that may require the State to comply with any new federal mandate in the current or next biennium.

LD 1790 An Act to Implement Performance Budgeting in State Government establishes a Commission on Performance Budgeting to monitor and guide performance budgeting in state government and report to the legislature and Governor King on recommendations for improvements in performance budgeting. The PUC is working on its own strategic plan for implementing performance based budgeting and is developing a pilot in-house program.

LD 1877 An Act to Amend the Laws Concerning Enhanced 9-1-1 increases the surcharge on each telephone line from 2 cents to 20 cents per month. In addition the Utilities and Energy Committee has asked the PUC to prepare a report by Feb. 1, 1997 on potential alternative funding mechanisms for long-term funding of the E-9-1-1 system.

## SUMMARY OF FISCAL INFORMATION

The Public Utilities Commission is required by 35-A M.R.S.A. § 120 to report annually to the Joint Standing Committee on Utilities and Energy on its planned expenditures for the year and on its use of funds in the previous year. This section of the report fulfills this statutory requirement and provides additional information regarding the Commission's budget.

The Commission had one source of funding in FY96, a Regulatory Fund of \$4,918,000. The Regulatory Fund is an assessment on utilities pursuant to 35-A M.R.S.A. § 116. The assessment process is described in Section 4 below.

All references in this section are to fiscal years -- July 1 to June 30. Consulting Services are broken out from All Other because it represents a large portion of the Commission's budget.

The Commission was authorized 69 full-time positions in FY96.

1. A. Fiscal Year 96

In FY 96, the Commission spent approximately \$4.3 million, regulating 412 utilities with gross revenues exceeding \$1.63 billion. Attachment 1 summarizes Regulatory Fund activity and activity in other funds administered by the Commission. Attachment 2 details FY96 expenditures by line item.

B. Regulatory Fund

The authorized Regulatory Fund assessment for FY96 was \$4,276,900.2 In addition to the assessment, an unencumbered balance of \$887,000 and encumbrances of \$91,373 were brought forward from FY95. \$4,271,041 was expended. Expenditure details are presented in Attachment 2. An encumbered balance of \$19,471 and an unencumbered balance of \$964,761 were brought forward to FY97. The encumbered balances generally represent ongoing contracts for consulting services.

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<sup>2</sup>Pursuant to 35-A M.R.S.A. § 116(5), balances up to 5% of the Regulatory Fund may be brought to the next fiscal year. Any amount over 5% must be reallocated by the Legislature or used to reduce the utility assessment in the following year.

C. Filing Fees

In FY 96, no filing fees were received and no expenditures were made.

D. Miscellaneous Reimbursements

Miscellaneous reimbursements consist of funds received for copies of documents such as monthly dockets, agenda and decisions and for other miscellaneous items. \$1,407 was brought forward from FY95. An additional \$14,834 was received during FY96. \$12,331 was expended and an unencumbered balance of \$3,910 was brought forward to be expended during FY97. In FY96, no fines were collected by the Commission.

2. Fiscal Year 97

Attachment 3 details the Commission's FY97 Regulatory Fund budget. Encumbered and unencumbered balances brought forward from FY96 are included. The right hand column represents the total funds available to the Commission in FY97 by account and line category.

3. The Budget in Perspective

Attachment 2 details the Commission's Regulatory Fund budget for a 5-year period. The two left hand columns include amounts actually expended in FY95 and FY96. Column 3 contains the FY97 expenditure plan. Column 4 contains the FY98 Budget. Column 5 contains the FY99 Budget.

4. The Regulatory Fund Assessment in Perspective

Attachment 4 details the Regulatory Fund assessments since FY80. Annual Reports filed by the utilities with the Commission include revenues for the previous year ending December 31. Calculations are made to determine what percentage of the total reported revenues will provide the amount authorized by statute. The factor derived that will raise the authorized amount is applied against the reported revenues of each utility. Pursuant to 35-A M.R.S.A. § 116, on May 1 of each year an assessment is mailed to each utility regulated by the Commission. The assessments are due on July 1. Funds derived from this assessment are for use during the fiscal year beginning on the same date.

5. Management Audits

35-A M.R.S.A. § 113 provides that the Commission may require the performance of a management audit of the operations of any public utility. In FY96 no management audits were ordered by the Commission.

Attachment 1

PUC FUND ACTIVITY BY ACCOUNT FOR FY 1996

ACCOUNT NAME	AMOUNT
<hr/>	
REGULATORY FUND	
<hr/>	
UNENCUMBERED BALANCE BROUGHT FORWARD FROM FY 95	887,000
ENCUMBERED BALANCE BROUGHT FORWARD FROM FY 95	91,373
FUNDS RECEIVED DURING FY 96	4,276,900
LESS EXPENDED DURING FY 96	4,271,041
ENCUMBERED BALANCE BROUGHT FORWARD TO FY 97	19,471
UNENCUMBERED BALANCE BROUGHT FORWARD TO FY 97	964,761 *
REIMBURSEMENT FUND	
<hr/>	
FILING FEES	
UNENCUMBERED BALANCE BROUGHT FORWARD FROM FY 95	0
ENCUMBERANCES BROUGHT FORWARD FROM FY 95	0
FUNDS RECEIVED DURING FY 96	0
LESS EXPENDED DURING FY 96	0
UNENCUMBERED BALANCE BROUGHT FORWARD TO FY 97	0
MISC. REIMBURSEMENTS	
UNENCUMBERED BALANCE BROUGHT FORWARD FROM FY 95	1,407
FUNDS RECEIVED DURING FY 96	14,834
LESS EXPENDED DURING FY 96	12,331
UNENCUMBERED BALANCE BROUGHT FORWARD TO FY 97	3,910

\*\$718,864 OF THE UNENCUMBERED BALANCE FORWARD WILL BE USED TO REDUCE THE ANNUAL ASSESSMENT FOR FY 98

## Attachment 2

PUC BUDGET IN PERSPECTIVE

	FY95 EXPENDED	FY96 EXPENDED	FY97 WORKPLAN	FY98 BUDGET	FY99 BUDGET
<hr/>					
REGULATORY FUND					
<hr/>					
POSITIONS	(69)	(69)	(69)	(69)	(69)
PERSONAL SERVICES	3,459,852	3,485,729	4,039,676	3,987,077	4,152,288
CONSULTANTS	416,991	199,787	294,134 * 1	216,772	40,524
ALL OTHER	805,479	566,972	1,562,122 * 2	704,151	715,188
CAPITAL	95,794	18,553	6,300	10,000	10,000
<hr/>					
TOTAL	4,778,116	4,271,041	5,902,232	4,918,000	4,918,000
			(718,864) * 3		
BUDGET	5,224,215	5,009,373	5,183,368	4,918,000	4,918,000
<hr/>					
REIMBURSEMENT FUND					
FILING FEES	0	0	0	0	0
MISC. REIMBURSEMENT	14,915	14,834	3,910 * 4	0	0
<hr/>					
TOTAL ALL RESOURCES	4,793,031	4,285,875	5,187,278	4,918,000	4,918,000
<hr/>					

\* 1 ENCUMBERED BALANCE OF \$13,634 WAS BROUGHT FORWARD FROM FY 96.

\* 2 ALL OTHER WAS INCREASED BY AN ENCUMBERED BALANCE OF \$5,837 AND AN UNENCUMBERED BALANCE OF \$964,761 BROUGHT FORWARD FROM FY 96. THIS UNENCUMBERED BALANCE IS PARTIALLY THE RESULT OF UNFILLED POSITIONS.

\* 3 \$718,864 OF THE UNENCUMBERED BALANCE FORWARD WILL BE USED TO REDUCE THE ANNUAL ASSESSMENT FOR FY 98.

\* 4 UNENCUMBERED BALANCE FORWARD FROM FY 96 OF \$3,910.

## FY 97 BUDGET &amp; ADJUSTMENTS

	BUDGET	ADJUSTMT	ADJUSTED BUDGET
REGULATORY FUND			
POSITIONS	(69)	(0)	(69)
PERSONAL SERVICES	4,039,676	0	4,039,676
CONSULTING	280,500	13,634 * 1	294,134
ALL OTHER	591,524	970,598 * 2	1,562,122
CAPITAL	6,300	0	6,300
	-----		
TOTAL	4,918,000	984,232	5,902,232
CAPITAL	0	0	0
REIMBURSEMENT FUND			
FILING FEES	0	0	0
MISC. REIMBURSEMENT	0	3,910 * 3	3,910
	-----		
GRAND TOTAL	4,918,000	988,142	5,906,142

\* 1 ENCUMBERED BALANCE OF \$13,634 FOR CONSULTING CONTRACTS.  
BROUGHT FORWARD FROM FY 96.

\* 2 ADD ENCUMBERED BALANCE FORWARD OF \$5,837 AND AN UNENCUMBERED  
BALANCE FORWARD OF \$964,761 BROUGHT FORWARD FROM FY96. \$718,864  
THE UNENCUMBERED BALANCE FORWARD WILL BE USED TO REDUCE THE  
ANNUAL ASSESSMENT FOR FY 98.

\* 3 UNENCUMBERED BALANCE FORWARD OF \$3,910 FROM FY 96.



MAINE PUBLIC UTILITIES COMMISSION  
Year in Review

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This annual report is a change in format and content from previous years. We welcome feedback on how we can improve next year's report. Send your comments to Phil Lindley at 208-287-1598 or [phil.lindley@state.me.us](mailto:phil.lindley@state.me.us)



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